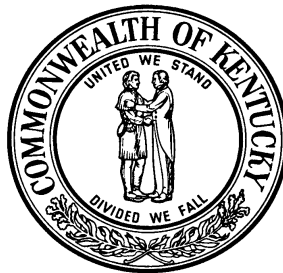


**REPORT OF THE AUDIT OF THE
CARLISLE COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

May 5, 2006



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
CARLISLE COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES

May 5, 2006

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2005 Taxes for the Carlisle County Sheriff as of May 5, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$1,214,178 for the districts for 2005 taxes, retaining commissions of \$50,542 to operate the Sheriff's office. The Sheriff distributed taxes of 1,163,669 to the districts for 2005 Taxes. Refunds of \$366 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Report Franchise Tax Collections By The Tenth Of Each Month
- The Sheriff Should Pay School's Portion Of Interest Earned On A Monthly Basis
- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Deposit Funds Intact On A Daily Basis

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor
Robert M. Burnside, Secretary
Finance and Administration Cabinet
Honorable John Roberts, Carlisle County Judge/Executive
Honorable Steve McChristian, Carlisle County Sheriff
Members of the Carlisle County Fiscal Court

Independent Auditor's Report

We have audited the Carlisle County Sheriff's Settlement - 2005 Taxes as of May 5, 2006. This tax settlement is the responsibility of the Carlisle County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Carlisle County Sheriff's taxes charged, credited, and paid as of May 5, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 17, 2007 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robert M. Burnside, Secretary
Finance and Administration Cabinet
Honorable John Roberts, Carlisle County Judge/Executive
Honorable Steve McChristian, Carlisle County Sheriff
Members of the Carlisle County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Report Franchise Tax Collections By The Tenth Of Each Month
- The Sheriff Should Pay School's Portion Of Interest Earned On A Monthly Basis
- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Deposit Funds Intact On A Daily Basis

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

August 17, 2007

CARLISLE COUNTY
STEVE MCCHRISTIAN, SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES

May 5, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 161,537	\$ 204,951	\$ 429,228	\$ 151,153
Tangible Personal Property	11,588	14,393	30,790	24,364
Intangible Personal Property				14,207
Fire Protection	896			
Franchise Taxes	44,654	58,129	118,064	
Additional Billings	674	816	1,785	629
Clay Reserves	102	124	273	96
Penalties	1,305	1,604	3,462	1,370
Adjusted to Sheriff's Receipt	<u>(8)</u>	<u>7</u>	<u>(5)</u>	<u>2</u>
Gross Chargeable to Sheriff	<u>220,748</u>	<u>280,024</u>	<u>583,597</u>	<u>191,821</u>
<u>Credits</u>				
Exonerations	1,299	1,591	3,447	1,335
Discounts	2,488	3,153	6,570	2,593
Delinquents:				
Real Estate	3,746	4,607	9,950	3,504
Tangible Personal Property	111	138	294	39
Franchise Taxes	<u>3,453</u>	<u>4,550</u>	<u>9,144</u>	
Total Credits	<u>11,097</u>	<u>14,039</u>	<u>29,405</u>	<u>7,471</u>
Taxes Collected	209,651	265,985	554,192	184,350
Less: Commissions *	<u>9,198</u>	<u>11,054</u>	<u>22,168</u>	<u>8,122</u>
Taxes Due	200,453	254,931	532,024	176,228
Taxes Paid	200,486	254,973	532,114	176,096
Refunds (Current and Prior Year)	<u>41</u>	<u>51</u>	<u>109</u>	<u>132</u>
Refunds Due Sheriff				
as of Completion of Fieldwork	<u>\$ (74)</u>	<u>\$ (93)</u>	<u>\$ (199)</u>	<u>\$ 0</u>

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

CARLISLE COUNTY
STEVE MCCHRISTIAN, SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES
May 5, 2006
(Continued)

* Commissions:

10% on	\$ 10,000
4.25% on	\$ 549,971
4% on	\$ 654,207

** Special Taxing Districts:

Ambulance District	\$ (36)
Extension District	(40)
Health District	(17)

Refunds Due Sheriff	<u>\$ (93)</u>
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CARLISLE COUNTY
NOTES TO FINANCIAL STATEMENT

May 5, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

CARLISLE COUNTY
NOTES TO FINANCIAL STATEMENT
May 5, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of May 5, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 5, 2005 through May 5, 2006.

B. Clay Reserve Taxes

The tangible property tax assessments on clay reserves were levied as of January 1, 2005. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 4, 2005 through May 5, 2006.

Note 4. Interest Income

The Carlisle County Sheriff earned \$693 as interest income on 2005 taxes. As of August 17, 2007, the Sheriff owed \$160 in interest to the school district and \$192 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Carlisle County Sheriff collected \$6,026 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of August 17, 2007, the Sheriff owed \$1,160 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Carlisle County Sheriff collected \$705 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The advertising fees will be used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Roberts, Carlisle County Judge/Executive
Honorable Steve McChristian, Carlisle County Sheriff
Members of the Carlisle County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Carlisle County Sheriff's Settlement - 2005 Taxes as of May 5, 2006, and have issued our report thereon dated August 17, 2007. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Carlisle County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Deposit Funds Intact On A Daily Basis

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Carlisle County Sheriff's Settlement - 2005 Taxes as of May 5, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Report Franchise Tax Collections By The Tenth Of Each Month
- The Sheriff Should Pay School's Portion Of Interest Earned On A Monthly Basis

This report is intended solely for the information and use of management, the Carlisle County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

August 17, 2007

COMMENTS AND RECOMMENDATIONS

CARLISLE COUNTY
STEVE MCCHRISTIAN, SHERIFF
COMMENTS AND RECOMMENDATIONS

As of May 5, 2006

STATE LAWS AND REGULATIONS:

The Sheriff Should Report Franchise Tax Collections By The Tenth Of Each Month

Audit procedures performed on franchise taxes revealed that the Sheriff was not reporting on a monthly basis the franchise taxes collected. KRS 134.300 requires the Sheriff to report and distribute money collected during the preceding month by the tenth of each month. We recommend the Sheriff comply with KRS 134.300 by reporting each month's franchise taxes by the tenth of the following month and also by making proper tax distributions at that time.

Sheriff's Response: No Response.

The Sheriff Should Pay School's Portion Of Interest Earned On A Monthly Basis

Audit testing revealed that the Sheriff did not make monthly payments to the board of education for the school's apportioned amount of interest earned on the Sheriff's tax account. KRS 134.140(3)(b) states, "At the time of his monthly distribution of taxes to the district board of education, the sheriff shall pay to the board of education that part of his investment earnings for the month which is attributable to the investment of school taxes." We recommend the Sheriff comply with KRS 134.140 by paying the interest due to the school on a monthly basis.

Sheriff's Response: No Response.

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties. Due to the entity's diversity of official operations, small size, and budget restrictions, the official has limited options for establishing adequate segregation of duties. We recommend the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare daily bank deposits with the daily tax collection sheets and tax receipts ledger. Any differences should be reconciled. The Sheriff could document his comparison by initialing the daily collection sheet, receipts ledger, and bank deposit.
- The Sheriff should compare the monthly tax reports for property and franchise taxes to his tax receipts and tax disbursements ledgers for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the monthly tax reports and receipts and disbursements ledgers.
- The Sheriff should compare the bank reconciliation to the bank balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation.
- The Sheriff should require dual signatures on all checks.

Sheriff's Response: No Response.

CARLISLE COUNTY
STEVE MCCHRISTIAN, SHERIFF
COMMENTS AND RECOMMENDATIONS
As of May 5, 2006
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES
(CONTINUED):

The Sheriff Should Deposit Funds Intact On A Daily Basis

Audit procedures revealed that the Sheriff was not depositing tax collections on a daily basis. Furthermore, we noted that tax collections for some days were being held up to three weeks before being deposited. Technical Audit Bulletin 93-002, Sections 3 and 4, require the Sheriff to reconcile daily collections to daily deposits and to deposit funds intact on a daily basis. We recommend the Sheriff reconcile the daily tax collection reports to the funds collected and deposit these tax collections into the bank account daily.

Sheriff's Response: No Response.

